

4. ECONOMIC DEVELOPMENT

Introduction

The purpose of the Economic Development Element is to identify the current economic conditions, constraints and opportunities in the City of Hayward and to establish policies and strategies that:

- Support economic growth;
- Maintain a healthy balance between economic growth and environmental quality;
- Provide the necessary support to businesses;
- Eliminate cumbersome and unnecessary regulations;
- Prevent the wasteful underutilization of physical resources;
- Encourage businesses that create permanent, higher wage jobs to locate and/or expand in Hayward; and
- Assist City residents to acquire skills so that they may fill the jobs of the future.

Although the Economic Development Element is not a state-mandated element of the General Plan, it provides an important statement of the policies and goals of the City relating to economic development. As such, it serves as a source of information and a statement of public policy to aid residents, businesses, other agencies, and city officials in making recommendations or decisions on matters relating to economic development. The Element is closely linked to other elements of the General Plan, including Land Use, Circulation, and Housing. This Element provides guidance to the Planning Commission and the City Council when considering specific projects and calls for an analysis of benefits and disadvantages in order to provide decision-makers with information regarding long- term impacts. It is expected that over time this Element will be amended to adapt to changing needs and economic conditions.

The Economic Development Element is a framework that will allow the City to be proactive and respond to opportunities in the environment more quickly and efficiently to ensure Hayward's long-term economic health and vitality. It must be recognized that the environment in which the City functions is primarily a regional economy. Within that context, the City must continually monitor the range and type of change that takes place and be prepared to respond appropriately. The Bay Area is a vibrant, competitive economic environment, providing continuous opportunities and challenges for the City. Keeping abreast of and acting upon changes which may impact our local economy is a vital part of the framework for economic development.

Regional Economic Outlook

The term “new economy” generally refers to the transformation of our manufacturing-based economy to an information-based economy. This transition is reflected in the growth in employment in certain job sectors. A recent report issued by the Bay Area

Economic Forum, *Leading the Transition to a Knowledge-Based Economy*, focused on those industry clusters that drive innovation, economic growth, and job generation in the region. An industry cluster is a group of businesses that tend to locate and grow in close relation to one another. By examining these clusters, researchers can anticipate growth and contractions in a regional economy. In 1995, more than 480,000 people in the Bay Area were employed in one of seven knowledge-based industry clusters. These include the computer and electronics industry, telecommunications, multimedia, movie/TV production, biotechnology, environmental technology, and travel and tourism. The number of Bay Area jobs in these clusters is projected to grow by 59 percent between 1995 and 2020, as compared to 45 percent for all jobs in the region. The computer cluster alone will add more than 70,000 jobs ranging from high-wage engineering jobs to low-wage stockroom clerks. By 2020, the Bay Area's knowledge-based clusters will employ approximately 770,000 people, or about 18 percent of the region's workforce.

According to the Association of Bay Area Governments (ABAG), the Bay Area job outlook is undergoing a transformation that is significant in both types of jobs available and their location. The Bay Area is moving away from the perception of the regional economy being based only on high-tech manufacturing jobs based in Silicon Valley, to the reality of a much more broadly-based economy that will see growth in an array of job sectors offering employment throughout the Bay Area. While there will be appreciable job growth in the South Bay between 2000 and 2020, many other subregions will see strong growth as well. If Hayward is to share in this growth, policies must be developed to accommodate the anticipated growth in a manner that will be of the greatest benefit to the city (see section on Transformation of the Industrial Corridor in the chapter on Land Use).

The New Economic Reality Facing California Cities

The 1990s ushered in a new reality for every city in California: fiscal self-reliance. A self-reliant city's ability to fund public safety, infrastructure and other vital municipal services is determined by its economic base and revenue structure. Faced with permanent cutbacks in federal spending and the loss of local property tax revenue, which was taken from cities and counties by the state, each locality is now dependent upon the revenue generated from its own economic base to define the level of services it can afford to provide.

The economic base consists of land, buildings and other structures and personal property of commercial, industrial, residential, institutional and government users. The revenue structure consists of non-discretionary taxes which a city does not have the authority to directly control --such as property tax, sales/use tax and state subventions --and discretionary taxes which are revenue sources that a city has the authority to directly control --such as business license tax, transient occupancy tax, utility users tax (where applicable) and franchise fees.

Cities experience changes in their business base at an average rate exceeding 20% per year, due to business openings, closings, expansions, consolidations, relocations,

mergers, acquisitions and other events. Not only do cities' economic bases change, but their revenue structures change as well, due to legal decisions, legislation, regulation, deregulation and emerging technology. In order to survive, Hayward has reduced costs and improved efficiency by restructuring and reorganizing service delivery. Reducing costs and improving efficiency are important, but they are not the only strategies that will assure Hayward can continue to provide residents, businesses and their customers and suppliers with quality services. Strategies that encourage land use, development and businesses that generate sufficient revenue from non-discretionary taxes (sales/use and property taxes) to pay their way *and* meet the needs of Hayward residents and businesses are important. Equally important, since developable land is limited, are strategies that discourage land use, development and businesses that do not generate sufficient revenue to pay their way without creating a public good. As the City of Hayward approaches build-out, the challenge will be how to ensure productive re-use of existing resources to create a healthy, self-sustaining city. Issues addressed in this Element include the following:

- *physical development*, including land availability and infrastructure;
- *resources*, including firms doing business in Hayward, employed residents, and the education system; and
- *financial capacity*, including the revenue structure, and sales tax and property tax trends.

Land Availability and Relationship to Markets

Hayward's central location in the Bay Area has attracted a wide variety of businesses. Hayward remains a very attractive location for manufacturers and distribution outlets where proximity to the entire Bay Area is important. The vast majority of businesses visited as part of the City's Business Retention Program have customers located in the Bay Area. Approximately 15% have customers located throughout northern California while 10% have customers located throughout the state or internationally. Experience with new business attraction activities has shown that, when a business is interested in locating in the Bay Area because its center of business is here, Hayward is very competitive. However, when that business' sphere of operations is northern California, almost all firms will choose to locate in the North Bay or even Sacramento County, where land prices and labor and housing costs are lower and congestion is somewhat reduced. Likewise, firms whose sphere of operations are statewide, or not dependent upon the Bay Area, have moved to locations within the Central Valley where land and labor are cheaper and access to major north-south transportation routes is excellent.

Land Prices and Availability

The City's location, land availability, and relatively low land prices have been valuable components in the growth and development of the industrial and retail markets. The City's location and relatively low land prices remain favorable conditions encouraging economic development. Land prices for industrially zoned land with appropriate infrastructure in Hayward compare favorably with nearby areas, including Oakland, San

Leandro, Union City, Newark and Fremont. Once a favorable condition, land availability has become a constraint due to the relatively small number of larger vacant parcels that are available for development.

Land prices will most probably rise as the supply of vacant developable land declines, reducing Hayward's competitive advantage. The cost of development can also be projected to increase if the remaining parcels are smaller infill parcels that must be assembled prior to development and the existing structures demolished before construction of new development can begin. The large number of small, vacant industrially-zoned and commercially-zoned parcels in the City and the small number of vacant parcels of any significant acreage remain one of the most significant issues that affect future development.

There are several ways that a city can increase the amount of land available for development. It can zone or rezone properties in appropriate areas for development; it can annex land within its sphere of influence and, if appropriate, zone it for industrial development; and it can create redevelopment areas in order to acquire and assemble small, relatively uneconomic properties to create parcels that can attract the type of development desired by the city.

Industrial/ Business Park Land Availability

Land availability is a primary issue for the City of Hayward. The amount of vacant land available for business expansion and new development has become quite limited. There are approximately 300 acres that are vacant and planned for industrial development. With the exception of the proposed Eden Shores complex, there are very few large parcels. Another 300 acres may be considered as underutilized with the potential for more intensive development.

Cities to the south of Hayward have much more vacant land available. For example, approximately 800 acres in Fremont are included in a planned development. New business parks have opened in Union City and Newark. Several Hayward businesses seeking to expand have relocated because of the lack of available land and facilities in Hayward.

The Hayward/Union City industrial market has been one of the last Bay Area markets to experience single digit vacancy rates due to the tremendous amount of warehouse space built in the 1980s, when this market area essentially doubled in size. Surrounding cities (Fremont, Livermore, Oakland, San Leandro) and Peninsula cities typically experience lower vacancy rates. The Hayward/Union City market experiences spillover from these surrounding cities, producing additional demand for warehouse facilities. Increased demand is projected to continue into the foreseeable future.

Commercial/Retail Land Availability

Vacant commercial retail properties face similar constraints to industrially-zoned land. There are only 13 acres vacant and planned for commercial development. Another 55 acres, consisting primarily of very small parcels, may be considered as underutilized. Very few of the vacant parcels are larger than one acre (between one and three acres). This poses a serious problem for attracting "big box" retail and other similar retail stores. A major chain store, which would attract customers within a five-mile radius, requires a site of at least four acres. While small parcels can be utilized for the type of upscale specialty retail desired by many Hayward residents, specialty chain stores (such as Starbucks) make locational decisions based primarily on disposable income, educational level and the distribution of similar flourishing specialty stores in the market area.

Relationship to Industrial and Commercial Markets

Industrial and Warehouse Market. Since Hayward's industrial area provides an excellent central location with access to suppliers and markets in the East Bay, Silicon Valley and San Mateo County, the area has been able to attract traditional manufacturing/distribution activities and high-tech related manufacturing and service industries. Realtors and brokers specializing in industrial and distribution space have indicated that Hayward is seen as an attractive place to expand or relocate by firms in northern San Mateo County (within proximity of the Hayward-San Mateo Bridge) and northern Alameda County. This suggests that Hayward will continue to see a strong demand for warehouse space even as the city seeks more light manufacturing and research and development companies.

Although Hayward is accessible to Silicon Valley, these firms perceive Hayward as being too far away. Nonetheless, due to low lease rates and the availability of appropriate space, Hayward continues to be attractive to relatively small high-tech and biotech firms that do not need to be located near Silicon Valley or the Berkeley-Emeryville area. The majority of business parks in Hayward are less expensive than similar business parks in Fremont, Dublin and Alameda, while Union City rates are similar to or slightly higher than Hayward, depending on the age and type of property on the market.

Quality research and development space in the East Bay has been increasingly difficult to secure and this trend should continue in the foreseeable future. The strong demand throughout the Bay Area will force tenants located in the higher-priced Peninsula and South Bay regions to expand their geographic search areas. In comparison, the more reasonable pricing in the East Bay market will continue to attract tenants from the surrounding markets while options for conversion to higher and better uses broaden purchasers location alternatives.

In recent years, Hayward has benefitted from a central location, available land and relatively inexpensive sales and lease rates as businesses from San Francisco, South San

Francisco, Brisbane and from the East Bay cities of Berkeley, Emeryville and Oakland have relocated to Hayward. However, when price has not been a significant factor in decision-making, some Hayward businesses, seeking to expand, have relocated to Fremont and Pleasanton in order to build or purchase new facilities with more of an upscale image. Other businesses that have relocated from Hayward to Union City, Newark, and Livermore have cited the current lack of available vacant land for new facilities, business and industrial parks as a key factor in these decisions.

Office Market. Hayward does not have an established reputation in the Bay Area office market. Most firms looking for office space in Hayward are serving a local market and seek newer space, expanded space or a more convenient location than their current offices within the local area. Although Hayward is well situated for the administrative functions of firms doing business throughout Alameda County and the Bay Area, Hayward's lack of reputation as an established office market means that most large firms will look elsewhere for space, and financing is not available for speculative office development. The few times that Hayward has been identified as an appropriate site for larger office uses looking to expand or relocate, available office space has been insufficient to meet the need.

The amount of office space has increased in Hayward's industrial area. A review of recent building permit data shows that most of the tenant improvements in the industrial area were for conversion of a portion of warehouse space to offices. This trend is expected to continue as uses intensify.

Retail Market. Hayward's central location in the Bay Area has been a key factor in the success of the retail sales market. In the past, Hayward's retail establishments attracted most of the trade generated by local residents and captured business from outside the primary market area. In particular, new and used auto sales, auto supply establishments and general merchandise stores attracted customers from a wide market. More recently, there has been a significant increase in the number and type of retail establishments in surrounding cities. While Hayward still draws customers seeking to purchase automobiles, retail sales from general merchandise stores has declined during the past decade.

In recent years, Hayward has been in the top ten percent of all California cities in retail sales. In comparison with other cities in the I-80/880 corridor, Hayward ranked second in total sales in Alameda County, behind Oakland and ahead of Fremont. This is quite remarkable, considering the fact that Hayward is two-thirds the size of Fremont. San Leandro was first in average sales per outlet and average sales per capita, followed by Hayward. Average sales per outlet in six major retail categories (apparel, general merchandise, specialty, food and beverage, building materials and auto) are relatively high for the state as a whole and the other cities in the I-80/880 corridor. This is a useful fact for recruiting businesses in these categories since retailers want the highest possible sales per outlet.

Infrastructure

Infrastructure consists of transportation and communications networks and water, sewer, wastewater and storm drain systems. Major upgrades of existing communications networks such as cable television and telephones are occurring throughout the Bay Area and high technology communications companies seek to install the latest equipment. Sound infrastructure planning has allowed Hayward to have very competitive rates and facilities fees (also see chapter on Public Utilities and Services).

Water and Water Rates

Hayward has the highest quality water in the San Francisco Bay Area. Unlike other cities, whose water contains a mixture of reservoir, well and surface waters, Hayward does not mix water from other sources with the water received from Hetch Hetchy Reservoir in the Sierra Nevada. Hayward's agreement with San Francisco's Hetch Hetchy Water System allows the City an unlimited supply of water. Hayward's water rates are among the lowest of local water agencies in the Bay Area.

Waste Water and Waste Water Rates

Hayward's sewer system is one of the most efficient systems in the Bay Area with enough capacity to meet the City's needs over the next several decades. The City of Hayward provides wastewater collection and treatment services to residents within the city limits as well as several adjacent unincorporated areas. The collection system includes over 300 miles of sewers, including trunk lines of up to 48 inches in diameter, as well as 2.5 miles of force mains. The collection system also includes two major lift stations and five smaller lift stations. Most mains were constructed within the last 40 years.

The City's Water Pollution Control Facility provides primary and secondary treatment of the influent wastewater. The plant currently has a rated capacity of 16.5 million gallons per day (mgd), with a current average dry weather flow of about 11.0 mgd. The City's ultimate dry weather flow with full development as envisioned in the General Plan is projected to be around 16.5 mgd as well. Hayward's monthly sewer charges are among the lowest in the East Bay, and connection fees are also very reasonable with no hidden assessment charges.

Storm Drain System and Rates

The major part of Hayward's storm drain system is maintained by the Alameda County Flood Control and Water Conservation District. The County charges users a fee based on the flood control zone in which they are located. Property owners are charged a fee by the City (on the property tax bill) to cover pollution prevention and control, cleaning of catch basins and storm drain lines. Hayward's storm drain system has enough capacity to support future business development.

Transportation Network

Three railroad lines run through Hayward with connecting rail spurs to many industrial sites. Hayward is also a scheduled passenger stop on Amtrak's Capitol Corridor line between Sacramento and San Jose. In addition, over 100 truck lines and carriers provide service to Hayward. Hayward has excellent access to markets within the Bay Area and to major routes extending through northern and southern California. Interstates 880, 580 and State Highways 238 and 92 converge in Hayward. The Hayward-San Mateo Bridge provides access to Silicon Valley to the south and San Francisco to the north. This transportation network makes Hayward an excellent location for reaching vital markets throughout California, the United States, and the Pacific Rim.

The road network in some parts of the Industrial Corridor needs to be upgraded and expanded. In the past, an Industrial Assessment District has been proposed as a way of financing needed improvements, but the cost of the assessments to make the improvements was higher than most property owners wanted to pay. This funding mechanism may warrant renewed attention in the future, particularly since the reauthorization of Measure B provided partial funding for several improvements.

Traffic Fees

Almost all cities in Alameda County have traffic impact fees to provide funds for continual improvement of local roads. While Hayward does not have a traffic fee, the Supplemental Building Construction and Improvement Tax for new construction has been very competitive with traffic fees in other cities in the County.

Telecommunications Network

The City is very supportive of the creation of state-of-the-art technological infrastructure for business and educational uses throughout the city, particularly in the industrial areas, downtown, and the Chabot College and California State University-Hayward campuses. Fiber optic installations are very important to continued development of the Industrial Corridor and overall economic competitiveness of the city. The City has worked with various telecommunications companies to wire the city utilizing a fiber optic backbone to allow modern forms of high speed voice and data transmission. There are seven different companies that have existing or planned routes. Existing routes extend to all parts of the Industrial Corridor. Two of the existing routes serve the Downtown area and California State University-Hayward. Other major routes follow the Union Pacific Railroad tracks and the PG&E transmission lines. Major proposed routes would extend along Upper B Street, Mission Boulevard, and West A Street.

Employment Base and Local Resources

Hayward's economic development resources consist of its businesses, its employed residents, its training and education systems, and the local business climate.

Sales Tax Generators

Hayward has an exceptionally diverse array of sales tax generating businesses. This diversity has been a key factor in Hayward's economic health throughout the boom and bust of California's economic cycles. In recent years, studies have shown that Hayward received approximately 50% more sales tax in total dollars than the average California city.

Hayward has a relatively balanced retail base. Nine business sectors are represented among the top 20 sales tax generators. Light industry, new autos, office equipment, department stores, and manufacturing materials are the sectors represented among the top ten sales tax generators.

Approximately 40% of Hayward's taxable sales are from business-to-business transactions. This is one of the highest rates for cities in Alameda County. Business to business sales include office equipment, electronic equipment, business services, energy sales, chemical products, heavy industry, light industry, and leasing.

Employment Generators

According to the City's business license database, there are approximately 9,000 businesses in Hayward. Firms in Hayward represent more than 124 business sectors. This diverse economic base enabled Hayward to sustain itself during the recession in the early 1990s. Continuing changes in the health care industry are reducing jobs throughout the entire system; from hospitals to skilled nursing facilities. Mergers have eliminated jobs throughout the financial services industry. Job losses in department and variety stores were due to the California recession, intense competition from big box retailers and mergers between department stores.

Regional Job Growth

According to the employment forecasts as contained in the *Projections 2000* report by the Association of Bay Area Governments (ABAG), job growth should slow somewhat through the year 2005 as state and regional economies experience a period of adjustment. Beyond the next few years, the rate of job growth is expected to increase steadily by 2010, and then remain relatively stable through 2020. Projections for the Hayward area generally reflect trends and expectations for the region as a whole. The assumptions regarding the supply and availability of land are consistent with local data as well as policies of the General Plan.

The total job gain for the 20-year horizon period for the Bay Area is almost one million new jobs. The largest Bay Area growth sector is anticipated to be in the Services sector, with over 52% of the total job growth. It should be noted that the Services category includes business services, which encompass computer software firms, internet service providers, and related high technology services. Computer hardware manufacturing is included in the Manufacturing sector. The three remaining sectors are Manufacturing

and Wholesale (19 percent), Retail (11 percent), and Other (19 percent). In terms of growth at the county level, Alameda County is expected to capture 23 percent of the total Bay Area growth with nearly 220,000 new jobs. In the Manufacturing/Wholesale sector, County growth will comprise about 22 percent of the total growth within the Bay Area. The County Service sector growth represents 21 percent of Bay Area growth. This sector represents the largest amount of net new jobs, almost 110,000. Overall, Hayward should account for 8 percent of the total job growth within Alameda County with almost 22,000 new jobs to be created by the year 2020.

Table 4-1.

Change in Job Demand: 2000-2020 (*Note: All numbers are in addition to existing jobs*)

Sector	Bay Area	Alameda County	% of Bay Area Job Growth	Hayward	% of County Job Growth
Manf/Whls	186,660	40,740	22%	5,220	13%
Retail	105,820	23,000	22%	650	3%
Services	521,400	109,980	21%	13,950	13%
Other	186,710	46,010	25%	2,040	4%
Totals	1,000,590	219,730	23%	21,860	8%

Source: ABAG Projections 2000

Hayward Employment Trends

According to ABAG, total employment in Hayward was 90,080 in 2000, with 43,696 (48%) of these jobs located in the Industrial Corridor. Total employment in the city increased 18% over the 76,440 jobs in 1990, while employment in the Industrial Corridor increased 32% above the 33,041 jobs in 1990. The Industrial Corridor accounted for 43% of the total employment in 1990. Employment was relatively stable in the early 1990's, even while significant job losses were occurring elsewhere in the Bay Area due to military base closures and the California recession, because of Hayward's diversified industrial base. Employment growth during the latter part of the decade can be attributed to the economic resurgence at the regional, state and national levels. According to ABAG, employment in the Hayward area is expected to increase by almost 22,000 (24%) over the next twenty years, with an increase of 12,673 jobs (29%) anticipated in the Industrial Corridor. If these forecasts are realized, the Industrial Corridor would account for 58% of the growth in jobs, increasing its share of total employment within the city to 50%.

Employed Residents By Industry and Occupation

According to available Census data, there has been an increase in the number of Hayward residents employed in the following industries: finance/insurance/real estate, wholesale trade, communications/public utilities, transportation, and construction. The number of residents employed in manufacturing durable goods has decreased. In general, Hayward residents appear to be employed in the same industries that do business in Hayward, although, residents may work for firms that are not located in Hayward.

Between 1980 and 1990, the number of Hayward residents in various occupations increased as follows: executive/administrative/managerial, professional (65.4%), professional and technical services (43.5%), sales (41%), and personal services (20.4%). This change has resulted in increased demand for housing for professional and managerial employees. The one occupation in which the number of Hayward residents declined was machine operatives (-12.8%). This appears to be consistent with the decline in manufacturing jobs and the decrease in the number of Hayward residents employed in manufacturing that occurred during this time period.

Occupational Outlook

The State Economic Development Department (EDD) projects openings by occupation, based on survey data collected from employers. In recent years, in Alameda County, occupations with the most openings have been in relatively low wage fields such as retail salespersons, cashiers, clerical, waiters and waitresses, janitors, food preparation workers and many different types of clerks. Out of the 25 occupations with the most openings, only three--general managers/top executives, computer programmers, and accountants/auditors--were higher wage jobs that require a college or technical education. The occupations with the highest growth rate are not the occupations with the most openings. In general, those occupations require higher education and are relatively high wage jobs such as tax examiners, computer engineers, technical writers, and data processing equipment repairers.

Elementary and Secondary Education System

Hayward Unified School district serves over 20,000 students of varied cultures, languages, and backgrounds. The district's diversity, openness to change, and commitment to student learning have led to its recent involvement in several major school reform projects. In addition, increased revenues are resulting in higher teacher salaries and lower class sizes, which benefit classroom programs and help improve student learning.

Problems do remain. Many schools still have relatively high transiency rates and many are now close to physical capacity. In recent years, the District's high schools have had approximately the same college attendance rate as the New Haven and San Lorenzo school districts and Alameda County as a whole. However, the rate is lower than the San Leandro and Fremont districts. The District's dropout rate is higher than surrounding

districts; however, new programs have been implemented which focus on at-risk students and these programs are beginning to show some positive results. There have also been coordinated efforts to improve educational achievement including Healthy Start (with city, county, and nonprofit organizations) and the School-To-Career program (with Chabot College and Cal State Hayward).

Post-Secondary Educational Opportunities

Hayward is unique among East Bay cities in having an educational system that takes students from kindergarten to college graduation. Hayward is home to Chabot College, a community college, and to California State University at Hayward (CSUH). CSUH is a leader in multimedia studies. It has one of the top business schools in the State system and has been a training ground for entrepreneurs from Russia and China. Both Chabot and CSUH work closely with employers to tailor training programs for employees. The University of California, Berkeley; the University of California, San Francisco; and Stanford University are nearby. In addition there is a myriad of other educational resources located in Hayward, including the Hayward Adult School, business colleges, technical training programs, a Regional Occupational Program, and a Career Center for displaced workers.

Local Business Climate

According to past surveys of Hayward firms, the most important factors attracting them to Hayward were access to markets, relatively low lease rates/building costs, access to transportation facilities, proximity to owner's residence, and labor availability. Local commercial and industrial brokers have indicated that these same factors, with the exception of proximity to the owner's residence, remain important today.

Streamlining city government, particularly the development process, continues to be an important issue for businesses and realtors. The City has made significant progress in improving the development review and permitting process. As Hayward has improved its development process, so have surrounding localities. Cities have begun to compete for certain types of new business and a streamlined regulatory process provides a competitive advantage.

In recent years, equipment financing and working capital financing were the most common forms of credit sought by the companies surveyed. Two critical problems were that access to capital was difficult for firms that had not been in business more than five years, and that many lenders found it uneconomical to fund loans below \$100,000. As a result, the City developed a small business revolving loan program to provide financing for expanding credit-worthy businesses unable to obtain loans of less than \$100,000 and to assist businesses in packaging Small Business Administration loans.

Financial Capacity and Development Incentives

Long-term political, legal, and economic trends impact the fiscal health of cities and counties. Political factors include: cutbacks in federal and state assistance; state preemption of City revenue by exempting select industries/businesses from local taxes; state efforts to balance its budget by changing the property tax distribution and new charges for county services as the County attempts to balance its budget. Legal factors include: voter-established limitations on cities' revenue-raising authority (Propositions 13 and 62); unfunded costs of federal and state mandated programs; and legal and legislative actions entitling major industries and businesses to exemptions, reductions, and tax refunds. Economic factors include: certain industries/businesses not covering their fair share of city services and competitive disadvantages leading to business defections.

Revenue Structure

In response to these factors, all cities, including Hayward, have changed the way in which the cost of development is allocated to ensure that new development pays its own way as much as possible. The typical business expects the city in which it is located to provide police, fire, infrastructure and other services to support and protect its business operations, including its customers, suppliers, and employees. In return, the city expects each business to pay for its fair share of services provided. Cities today are aware that if a business generates insufficient revenue to fund its fair share of municipal services, the residents and other businesses located in the city wind up subsidizing the difference through reduced services and/or additional taxes.

There are a number of different sources of General Fund revenue. These sources are described in the City of Hayward Budget and summarized below. Revenue calculations are based on the Comprehensive Annual Financial Report for FY1999-2000.

Sales Tax. Hayward receives \$0.01 (12%) of the \$0.0825 tax collected per dollar of taxable sales. The sales tax provided approximately 38.2% of the City's total General Fund revenue.

Property Tax. Hayward receives less than 20% of the property tax generated locally. Alameda County receives 35%, the public schools receive 23%, and special districts receive 22%. The property tax provided approximately 18.0% of the City's General Fund revenue.

Motor Vehicle License Fees ("In-Lieu Tax"). These are special license fees established by and received from the State designed to compensate local agencies for the impact of vehicles in their communities. The in-lieu tax is based on individual vehicles' market value and depreciation rates and is allocated to cities and counties on the basis of population. The in-lieu tax provided approximately 8.1% of General Fund revenue.

Property Transfer Tax. This tax, currently assessed at the rate of \$5.60 per thousand dollars, is levied on the value of the sale of real property. Of this amount, \$4.50 goes to the City and \$1.10 is the documentary stamp tax levied by the County. This is a volatile

revenue source, since it is based solely on the frequency and magnitude of local real estate transactions. The property transfer tax provided about 5.0% of General Fund revenue.

Transient Occupancy Tax (TOT). This tax is levied on each guest's hotel/motel room bill. The TOT is 8.5% per dollar. The transient occupancy tax provided about 1.8% of General Fund revenue.

Business License Tax. The City requires all firms doing business in Hayward to obtain an annual business license. Business license taxes provided approximately 2.3% of General Fund revenue.

Gas Tax. The State distributes gas tax revenue to cities and counties on the basis of population. The gas tax accounted for approximately 1.1% of General Fund revenue.

Franchise Fees. The City charges franchise fees to utility companies doing business in Hayward, including Waste Management of Alameda County, PG&E, TCI (cable TV), and the City's Water and Sewer Fund. Franchise fees accounted for approximately 2.0% of General Fund revenue.

Supplemental Building Construction and Improvement Tax. The City has established a tax on new development based on square footage and type of use. This tax contributed 2.3% of General Fund revenue.

All other sources accounted for the remaining 21.3% of the City's General Fund revenue.

Fiscal Condition

Overall, Hayward is in a relatively healthy condition in comparison with many California cities. However, permanent property tax take-aways by the State have had an impact on Hayward. More recently, Hayward's General Fund revenue has increased significantly with the economic boon and now appears to be stabilizing as the economy slows down. The challenge facing Hayward is to develop strategies to ensure that revenues continue to increase over time as the amount of vacant land available for development declines.

Development Incentives

Since sales and property tax revenues are the major components of General Fund revenues, methods by which the City can increase these revenue sources will have a substantial positive impact. Hayward can increase these revenues by encouraging land uses, developments and businesses that generate sufficient revenue to pay their way from non-discretionary taxes, such as sales/use and property taxes.

Sales tax revenues are the biggest portion of Hayward's budget. Although they are somewhat volatile, due to changes in the economy, sales tax revenues can be increased through business attraction and retention activities that build on Hayward's strengths.

Hayward's central location has been a significant factor in attracting manufacturers and warehouse/distribution outlets, some of whom generate business-to-business sales. The balance between retail sales to businesses and sales to individual consumers has provided Hayward with relatively reliable revenues throughout most economic cycles.

Business-to-business retail sales are typically larger in dollar volume than are sales to individual consumers and may draw from a wider geographic area. The business-to-business retail sales category is one of the largest components of Hayward's sales tax revenue, accounting for approximately 33-40% of total annual revenues in this category.

From the Alameda County local government perspective, the most effective non-financial incentives include direct contact with potential or existing businesses, ombudsperson services and fast-tracking development projects. The most effective financial incentive programs in recent years remain use of redevelopment agency funds, tax-exempt bonds and community development block grant loans.

In recent interviews with businesses, the firms were asked to rank the importance of criteria considered in their location decision. The top three criteria were as follows:

1. Availability of an appropriate size site.
2. Service by regional highway systems and transit systems.
3. Proximity to labor force with desired skills.

Businesses said that the most important non-financial incentives from government were assistance with the permit process and fast-tracking projects. The most important financial incentives from government were low-cost loans, assistance with employee recruitment and retention, and incentives associated with state enterprise zones.

Hayward currently offers the following incentives, depending on the business type:

Financial assistance. Types of assistance include CDBG loans, assistance with SEA loan packaging, deferral of some City fees for high priority projects, assistance with land assembly and land-write downs in the redevelopment area, construction of infrastructure, and tax-exempt and taxable industrial bond financing.

Non-financial assistance. Types of assistance include pre-application meetings, fast-track development processing, and meetings with architects, engineers, and contractors on an as-needed basis. No site plan review is required within the Industrial District as long as the project meets design guidelines.

Since sales tax revenue is an important element of Hayward's fiscal health, identifying and utilizing incentives that will encourage businesses to generate the maximum sales volume from a Hayward location is very important. The City should make it as "painless" as possible for *existing* manufacturing and warehouse/distribution outlets to expand their Hayward-based sales force or become points of sale. Incentives include:

- Making it fast and easy to move through the development process to obtain a final inspection and/or a Certificate of Occupancy;
- Deferring, reducing or waiving appropriate discretionary development taxes/fees for tenant improvements that create sales office space. The amount and type of financial incentive would depend upon the amount of sales tax expected to be generated over the lease term.

ECONOMIC DEVELOPMENT POLICIES AND STRATEGIES

Community Development

1. Utilize an economic strategy that balances the need for development with other City goals and objectives.

1. Preserve and enhance Hayward's assets and character, which make it attractive as a residential community and as an economic investment.
2. Undertake adaptive reuse of older commercial structures and create complementary and compatible new development of high quality.
3. Approve development opportunities that result in minimal adverse impacts to the City's environment.
4. Prior to approval, identify the full costs and benefits of individual new developments and appropriately attribute those between the public and private sectors.

Land and Infrastructure

2. Create a sound local economy that attracts investment, increases the tax base, creates employment opportunities for residents and generates public revenues.

1. Revitalize declining commercial and industrial areas and obsolete facilities through rezoning, redevelopment, rehabilitation and other available means.
2. Work cooperatively with local business and industrial associations to improve the general business climate and to stimulate new business investment.
3. Ensure that there is adequate infrastructure (electricity, water, sewer) to support existing and new development.
4. Work with the public and private sectors to ensure that the city is adequately served by fiberoptic networks and other telecommunications facilities.
5. Ensure that an adequate supply of land is zoned for industrial and business park uses; limit uses that would erode the integrity of the Business and Technology Corridor.
6. Improve traffic conditions in the Business and Technology Corridor by coordinating roadway and transit improvements, perhaps through the establishment of an Industrial Assessment District.

7. Promote and protect the appearance of the Business and Technology Corridor to encourage quality development.
8. Identify sites for expansion of existing commercial, business park and industrial uses and for new development.

Employment Opportunities

3. Facilitate the development of employment opportunities for residents.

1. Promote commercial and industrial development to create and maintain the maximum job opportunities for area residents.
2. Facilitate the entry of Hayward residents into job training programs to enable them to hold meaningful, well paying jobs.
3. Work with job training organizations serving Hayward residents to ensure that their programs are preparing residents for jobs in growth sector industries.

Business Climate

4. Continue to enhance the City's image in order to improve the business climate.

1. Publicize positive images of Hayward through placement of articles in the local media and business journals.
2. Publicize/promote Hayward as an excellent place to do business by building on Hayward's competitive advantages, such as location, sewer capacity and water rates.
3. Promote Hayward as a city that has a broad variety of occupations and family incomes, ethnic diversity, diverse lifestyles and housing accommodations, a broad range of commercial services, educational and job opportunities, and many recreational opportunities.
4. Promote Hayward as a destination for nonresidents.
5. Provide excellent customer service by demonstrating that government listens to its customers, and by continuing to improve the development permit process and customer service training.

6. Develop long-term plans and pursue other endeavors that serve to enhance the Hayward community.
7. Apply new technologies to the development process to better serve Hayward customers, including technological improvements to the City's provision of services and collection of revenue.
8. Place emphasis on major arterials, gateways to the City, the Downtown and the Industrial Area, in landscaping maintenance and improvements, street cleaning, graffiti removal, and enforcement of community preservation, building codes, zoning and sign ordinances.

Business Attraction and Retention

5. Attract new businesses.

1. Business attraction efforts should focus on sales tax and employment generators; high performance, fast-growing firms and community-serving retail as well as high technology and other industries that will enhance the local economy.
2. Conduct outreach activities to suppliers and purchasers to attract new business and expand existing businesses:
3. Inventory available land and available facilities (in cooperation with the commercial real estate sector) for new business development and business expansion for sales tax and employment generators.
4. Create opportunity zones within close proximity of major highway interchanges to attract large retail operations, discounters, and other regional-serving establishments (such as hotels with conference centers).
5. Conduct outreach to identify upscale retail (such as bookstores, coffee stores, gourmet food shops, etc.) that could serve the Hayward community, the surrounding region and commuters.
6. Attract and assist medium size firms (15 to 50 employees) in recognized growth sectors including retail trade and services and high-tech, biotech, and research and development firms.
7. Streamline the development process so that it works effectively and efficiently for the customer, through early identification of issues and expectations and application of the "spirit of the law," as well as the "letter of the law".

6. Retain existing businesses.

1. Identify fast-growing firms, complementary businesses, and others with potential for expansion, and develop programs to assist them to expand in Hayward.
2. Retain small businesses and facilitate their expansion efforts.
3. Expand small business revolving loan program.
4. Continue business retention visits and assistance.
5. Continue to provide technical assistance to businesses during the development permit process.